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NURSING HOME RATE SETTING

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This report explains how the state sets the rates nursing homes receive when they care for Medicaid-eligible residents.

Some of the information in the report comes from the Department of Social Services' *Overview of Nursing Facility Rate Setting* (July 2011).

SUMMARY

The Department of Social Services (DSS) pays nursing homes per diem rates for caring for their Medicaid-eligible residents. Rates are set prospectively based on cost reports the homes submit each year. They are facility-specific and ordinarily DSS must calculate them annually. Although the homes report actual "allowable" costs (bad debt and certain other expenses are not allowable), state law establishes limits on what the homes can receive by placing caps on certain cost components. DSS pays homes higher rates for (1) being located in Fairfield County, (2) skilled versus unskilled beds, and (3) operating efficiently. To account for a lag period between when costs are reported and when DSS issues the rates, the department factors in inflation; it also must re-base a facility's rates every two-to-four years.

Despite the statutory framework, on an ongoing basis, the legislature has moved away from cost-based rate setting by granting statewide percentage increases or freezing rates altogether, regardless of a home's computed rate. Moreover, certain homes can receive higher, "interim" rates if DSS determines such is necessary.

MEDICAID RATE SETTING FOR NURSING HOME CARE— TRADITIONAL FORMULA

Cost Reports

These 39-page reports must be submitted by each December 31. They cover costs incurred during the preceding period running from October 1 through September 30.

The law establishes categories into which nursing home costs are reported ([CGS § 17b-340\(f\)](#)). These are direct and indirect costs, administrative and general expenditures, property (also called fair rent), and capital-related costs. It also establishes maximum amounts for most of these categories, which are established as a percentage of statewide median costs reported by facilities with the same type of license and in the same location. Fair rent and capital expenditures are not subject to these ceilings.

Reports also include detailed statistical data (e.g., resident days, therapy service volume, nursing hours) and ownership and related party transaction information.

Table 1 lists the cost components built into nursing home rates and indicates the statutory limit, if any, for each.

Table 1: Statutory Nursing Home Cost Components and Limits

<i>Cost Component</i>	<i>Includes</i>	<i>Limit</i>
Direct	Nursing and nurse aide personnel salaries, related fringe benefits, nursing pools	135% of median costs of facilities with the same license type and location
Indirect	Professional fees; dietary, housekeeping, laundry personnel and expenses; and supplies related to resident care	115% of statewide median
Administrative and general	Maintenance and plant operation expenses, salaries and related fringe benefits for administrative and maintenance personnel	100% of statewide median
Property (fair rent)	This amount is calculated to yield a constant amount each year in lieu of interest and depreciation costs.	State law limits to 11% the rate of return DSS may apply in its fair rent calculation.
Capital-related	Property taxes, insurance expenses, and equipment leases and depreciation	No maximum

Source: CGS §§ 17b-340 (f)(1) & (5) and DSS rate overview

Salary Limits. State regulations further limit the amount for which homes can claim reimbursement in a few cost categories. They broadly provide that costs must be reasonable and directly related to resident care. More specifically, they limit the maximum annual salary a home can pay for certain personnel, such as:

1. an administrator (\$84,975 in 2011 for between 61- and 120-bed facility);
2. a director of nurses related to owner (\$59,744 in 2011 for same-sized facility); and
3. dietitians (\$43.48 per hour in 2011) (Conn. Agency Regs., 17-311-52b).

Fair Rent. Fair rent is an amount calculated to yield a constant figure each year in lieu of interest and depreciation. The allowance for real property other than land, which includes such things as buildings and nonmovable equipment, is determined by amortizing the base value of the property over its remaining useful life and applying a rate of return on the base value. State law limits the ROR at 11%. For land, the fair rent allowance is the base value of the land multiplied by 1/3 of the ROR used for buildings; it is not amortized.

By law, the ROR is based on the Medicare borrowing rate. It was 4.4370% for assets placed in service in 2010. Nonprofit homes receive the lower of the fair rental value allowance or actual interest and depreciation plus certain other disallowed costs.

In FY 13, DSS may grant fair rent increases only for homes that have undergone material changes in circumstances related to fair rent additions placed in service in cost report years ending September 30, 2008 to September 30, 2011. Any increase must be associated with a DSS-approved certificate of need ([PA 12-1, June Special Session](#), § 16).

Rate Differential Based on Geography and Licensing Levels. The law recognizes a higher cost of living in Fairfield county by setting a higher upper limit on its direct costs than the one that applies in other areas of the state ([CGS § 17b-340\(f\)\(2\)](#)). This reflects the fact that homes presumably pay higher wages to staff working in that part of the state.

Per diem rates are also higher for nursing home beds licensed as chronic and convalescent nursing homes (CCNH), also known as skilled nursing facilities (97% of the beds in Connecticut were licensed as such as of September 30, 2011) than they are for beds with the rest home with nursing supervision (RHNS) (alternatively called intermediate care facilities) designation. CCNH beds receive a higher rate on the theory that more nursing staff are needed because residents in these beds need a higher level of care.

Table 2 shows the actual cost limits DSS imposed for the rate year July 1, 2011 to June 30, 2012 (the latest period for which information was available from DSS) for those components with caps.

**TABLE 2: ACTUAL PER DIEM COST COMPONENT LIMITS BY GEOGRAPHICAL PEER GROUPING
(JULY 1, 2011-JUNE 30, 2012)**

<i>Geographical Peer Group /Cost Component</i>	<i>Direct</i>	<i>Indirect</i>	<i>Administrative and General</i>
Fairfield County			
CCNH license	\$186.77	\$60.10	\$32.08
RHNS license	168.64	60.10	32.08
Rest of state			
CCNH license	165.66	60.10	32.08
RHNS license	113.30	60.10	32.08

Source: DSS

OTHER FACTORS AFFECTING RATES

Cost Efficiency Adjustments

Homes can also receive cost efficiency adjustments (rate increases) for keeping their indirect costs or administrative and general costs below the statewide median. The adjustment is calculated as 25% of the difference between their allowable reported per diem costs and the per-diem statewide median for each of the applicable categories ([CGS § 17b-340\(f\)\(6\)](#)).

Inflation

DSS adds in an inflation factor to compensate homes for the lag time between the cost and rate years. Currently, it uses the Regional Consumer Price Index and the projected value of that index (as reported by Data Resources, Inc.). According to DSS's rate setting report, allowable cost year 2007 costs were inflated by 10.97% for the July 1, 2011 rate period, representing the actual and estimated inflation rates between the two periods ([CGS § 17b-340\(f\)\(5\)](#)).

Re-Basing

The law requires DSS to re-base rates at least once every four years (but no more frequently than every other year). This system is used to reflect that factors affecting care costs can change over time; re-basing allows these changes to be incorporated into a facility's rate. So, for example, most computed rates for the 2010-11 rate year were based on 2007 cost report filings. (DSS used the 2009 report to calculate fair rent for property and fixed assets ([CGS § 17b-340\(f\)\(8\)](#))).

Minimum Occupancy

When DSS computes a home's rate, it looks at the home's allowable costs and divides them by the higher of reported total resident days for the year or facility occupancy at 95% of licensed capacity (This means that homes that have more empty beds receive lower rates than higher occupancy homes ([CGS § 17b-340\(f\)\(13\)](#))).

Unallowable Costs

DSS regulations require that all costs included in a home's per diem rate be reasonable and directly related to providing care to residents. They specify several costs that must be excluded in the rate calculation, such as (1) bad debt; (2) advertising except for help wanted ads; and (3) outpatient services, day care services, and meals-on-wheels (Conn. Agency Regs., § 17-311-52 (i)).

INTERIM RATES

The DSS commissioner may, within available appropriations, grant homes higher interim rates when he determines that the increase is necessary for a home (1) to avoid bankruptcy or being placed in receivership or (2) whose financial condition has so substantially deteriorated that it is expected to adversely affect resident care and the home's continued operation. The commissioner must also determine that the continued operation of a home seeking an interim rate is in the state's best interest.

When reviewing interim rate requests, the commissioner's considerations must include (1) how many beds are occupied in the area where the applicant is located and its projected future bed need, (2) the physical plant's condition and if the owner or purchaser will be able to

make necessary property improvements, (3) the home's history of complying with licensure and certification requirements, (4) if its calculation of actual and projected expenses are reasonable, and (5) the facility's ability to meet wage and benefit costs.

DSS rescinds interim rates when facilities are sold or otherwise conveyed for fair value to unrelated entities less than five years after the interim rate was granted. The department must recover the difference between payments made for all affected rate periods and payments that would have been made had the interim rate not been granted. It may recover payments made to facilities with common ownership. DSS can waive both the rate rescission and recoveries for good cause and with the secretary of policy and management's approval.

The law requires DSS to submit written quarterly reports to the Human Services, Appropriations, and Aging committees on the number and amount of interim rates requested, DSS's actions on them, and estimates of the additional cost the department incurred in granting requests ([CGS § 17b-340\(a\)](#)).

YEAR-TO-YEAR RATE CHANGES

Although the law provides for rate setting based on the above formula, since the mid-1990s the legislature has superseded these provisions by enacting laws that limit year-to-year rate changes, such as granting homes fixed, uniform percentage increases over their prior year's rate. Currently, rates are frozen through June 30, 2013, except for homes receiving interim rates that are lower or those granted fair rent increases as described above ([CGS § 17b-340\(f\)\(4\)](#)), as amended by § 16 of [PA 12-1, June Special Session](#)).

SOURCES

Department of Social Services, Office of Certificate of Need and Rate Setting, *Overview of Nursing Facility Rate Setting*, July 2011.

Office of Policy and Management, *Annual Nursing Facility Census*, September 30, 2011.

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